RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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July 29, 1977 **LETTER 704**

July 15, DJIA 905.95; PTI 884; A-D Ratio –17.87
July 22, DJIA 923.42; PTI 904; A-D Ratio –17.38

THE PICTURE: Wall Street never promised the investor a rose garden. The year 1977 has been no exception. For 10 months the D-J Averages have been "stalled out." The paths of the two Averages (Industrials and Transports) might best be described as "divergent" and "narrow."

During difficult markets (as this one is), I often lay awake nights wondering and debating whether I have done the best for my subscribers. The thought that occurs to me is that during protracted periods in which the Averages diverge, the odds are ***against*** real profits in the market. And the chances are good that before the divergence is over, investors will sustain losses in their accounts for all their worry and trouble. To put it briefly, in this business I have found it best not to fight the odds.

I am aware of the fact that there are always a few advisories who can tell you how to beat the odds (and a few actually do beat the odds). But I'm not running a crap shoot or a "How to Beat Wall Street" tout sheet. I'm attempting to guide people in their investments with the help of Dow's Theory and any other tool or concept that I think is valid. For that reason I have picked the bond sector as the place where investment money might do best while we wait for the ultimate resolution of this market divergence.

In my experience, the average investor (despite what the "geniuses" tell us) will seldom do appreciably better than the professional money managers. I am not saying that money managers have produced any glowing record over the years, but they do tend to make money in broad market advances, and they do tend to lose money during broad market declines. At any rate, I thought the accompanying statistics were interesting. For the past six months 16 big-city banks (with one exception) produced losses in their pooled funds,funds that are managed for "pensions and investments." The second list shows that the median performance of 474 mutual funds for the year 1977 produced an average increase of 1.62%. All of which underlines my thesis that when the Averages diverge, when there is a price-breadth divergence, the odds are against your making money. And if you do, the price you pay in terms of worry and perspiration may not be worth it!

Bank	Fund Size ($ Mill.)	% Chg. 6 Mos.
Bk. of Amer.	(a)	– 8.1%
Bk. of N.Y.	$50	– 5.7
Bankers Trust	114	– 5.1
Chase Manh.	75	– 9.4
Chem. Bk. N.Y.	61	– 1.7
Citibank	251	– 9.8
Cont. Ill.	94	– 7.5
Crocker Nat.	45	– 3.1
First Penna.	64	+ 2.9
Harris Trust	927	– 6.8
Irving Trust	(a)	– 7.2
Man. Hanover	100	– 5.0
Mellon	51	–10.7
Morgan Guar.	453	– 7.2
U.S. Trust	46	– 9.3
Wells Fargo	573	– 4.4
S&P 500	–	– 4.4
DJ Ind. Avg.	–	– 6.7

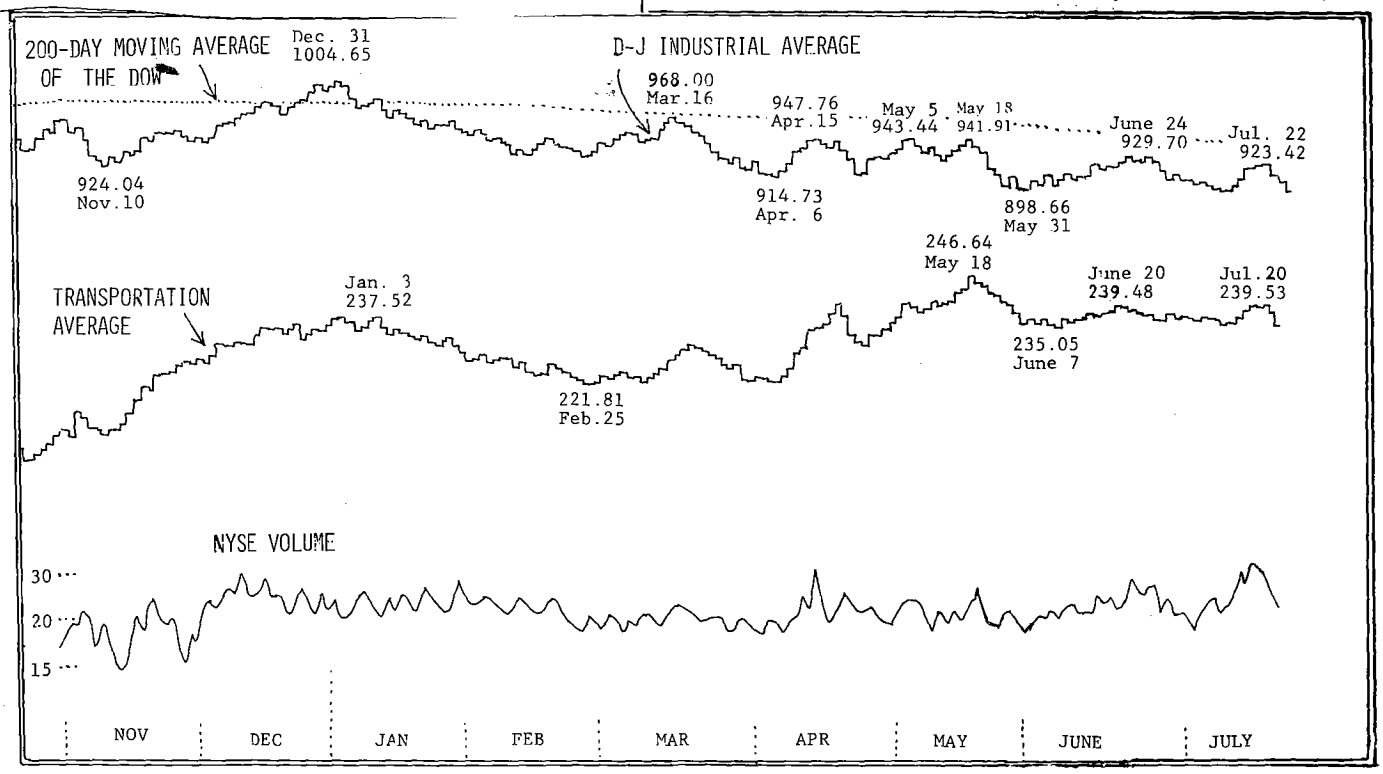
(a)-Not available.

LIPPER MUTUAL FUND INVESTMENT PERFORMANCE AVERAGES

(Published by Lipper Analytical Se

No. & Type of Fund	(a) Percent Change year to 7/21)77
474 All Funds	+ 2.14
56 Cap Appreciation	+ 5.48
190 Growth	+ 1.09
98 Growth & Income	+ 0.16
21 Balanced	+ 1.07
97 Income	+ 4.06
3 Insurance	+ 4.68
11 Specialty	+ 5.10
1 Option	– 3.52
Median Performance of 474 Funds	+ 1.62

THE MARKET: The Industrials have tested their upside barrier in the 1000 area over and over again—and so far they have failed to push appreciably over 1000. The most impressive attack on 1000 came to a halt on September 21, 1976, at which time the Dow recorded a ***bull market high of 1014.79***. The most recent attack can be seen on the daily chart below when, follow-



ing a dip to 924.04, the Dow pushed up to a high of 1004.65 on December 31.

Next, the Dow worked its way down to the 900 level. On May 31 the Dow actually broke below 900, closing at 898.66. But there was no downside follow-through. A rally ensued, followed by a second dip to a July low of 902.99. With the second downside attack failing to break 900, a new advance started. On July 19 the market produced dramatic volume of 31.9 million shares, highest volume of the year. Personally, however, I am always a bit skeptical of big, "exciting" volume when it comes in **under** the preceding Dow peak. I am much more impressed when volume expands **after** the Dow has bettered a preceding peak. The reason: all too often I have noticed that heavy volume below the preceding peak indicates distribution (at such times the market often assumes that "relentless onward and upward" look, as if it's just a matter of time before the preceding peaks are surpassed).

On July 20 the Transportation Average recorded a closing price of 239.53. This surpassed the previous peak of 239.48 recorded on June 20. Industrials failed to confirm (see p. 1 chart). This non-confirmation sets up the potential for trouble, but of course it is always possible that Industrials will rally up and over their comparable peak of 929.70 (set June 24) and thereby clear the air.

The picture at this point is particularly interesting from another standpoint. I am always on the alert when the two D-J Averages form a *very tight sideways structure*. Such structures, although they may appear uninteresting on the chart, may have very important implications. They are termed "**lines.**" Classically a line is a formation which occurs when both Averages, Industrials and Transports, fluctuate within a 5% or less range for a period of three weeks or longer.

Glancing at the page 1 chart of the Averages, we see that Industrials since May 31 have fluctuated between 898.66 and 929.70, a tight range of about 3.4%. Since June 7 the Transports have fluctuated between 235.05 and 239.53, an even tighter range of 1.6%. In other words, for eight weeks the two Averages have been fluctuating within extraordinarily narrow ranges. Thus, it appears that a classical *line* has formed in the Averages.

The joint breakout from a line (by joint breakout I mean, of course, a breakout by **both Averages**) can be unexpectedly **powerful**. Therefore, I would respect any breakout of this line formation, either above 929.70 and 239.53–or below 898.66 and 235.05.

Robert Rhea, the great Dow Theorist of the 1930's, was always emphatic in stating that there is *no way of knowing in advance* whether a line will resolve itself to the upside–or the downside. There are always many "hints" as to the ultimate move, but ironically, I have found that most of those hints tend to be in favor of what I would like to happen, not in favor of what the market is actually going to do. Therefore I have learned to let the **market tell its own story** when the Averages form one of their rare lines.

CONCLUSION: My conclusion is going to be a rather curious one. As far as my subscribers are concerned, since we are *already in a defensive position*, I am not worried about the downside. I would guess that if both Averages break on the downside, the nation could have a mess on its hands with the Averages probably "predicting" economic recession and with the mass of stocks heading appreciably lower.

Actually, if the Averages do break down (Industrials under 898.66, Transports below 235.05) I would expect the Dow to hold somewhat better than the great majority of NYSE issues, since the Dow has already corrected (in many cases individual Dow stocks have sustained large losses).

If the line formation is resolved on the upside, then (because we have not had an over-sold base) I believe the real advance would be mainly in the already corrected Dow stocks. This would mean that the Dow would outperform the A-D ratio and the great mass of stocks. The question which immediately comes up is–"Should one buy if the Averages break out on the upside?"

My own feeling is that there will be a tremendous temptation to "play" any breakout by the Averages above the upper limits of the line formation. But my "seat-of-the-pants" instinct tells me that any advance from here is going to be selective and very emotional. If you have to trade it, I suggest buying only the strongest Dow stocks with the stipulation that the market could top out as early as October.

At the present time, the strongest Dow stocks are (1) Texaco, (2) Allied Chemical, (3) General Foods, (4) Proctor and Gamble, (5) Johns Manville (this series courtesy of *Dike & Co.*, 1420 Carlisle Blvd NE, Albuquerque, NM 87110).

TECHNICAL NOTE: One of the extraordinary phenomenons of the market over the past few weeks is the virtual disappearance of the odd lot short seller. Day after day we have seen total NYSE odd lot short sales drop below 1000, a rare and unusual occurrence. Many subscribers have written to suggest that the new "put options" have taken the place of odd lot shorts. Maybe so, but then why the one-day jump on July 18 to 1,795 odd lot shares sold short (just before July 21st's astoundingly small 355 odd lot shorts?). At any rate, phenomenally low (as now) odd lot shorts have never appeared prior to a major market advance!

Question: Russell, cut out the mish-mash. I gather you do not think the odds for a major and really profitable market rise from here are good. Is that correct?

Answer: I'm afraid that is correct.

FIBONACCI: Most of my readers know of my interest in the Fibonacci numerical series. I last explained the series in Letter 696, so I am not going to do so again. But I do want to review my findings, and I want to add one new facet.

The series, if you remember, deals with the sum of each two numbers adding up to the third as 1,2,3,5,8,13,21,34,55,89,etc. At any rate, in Letter 696 I stated that a truly extraordinary number of dates pointed to **October, 1977** as a most important period. I cannot tell yet whether October is fated to be a top or a bottom. But here are the figures.

September, 1976 bull market peak (Dow 1014.79) to October 1977 is **13** months.
December, 1974 major bear market bottom to October, 1977 is **21** months.
May, 1970 crash bottom to October, 1977 is **89** months.
And here is the new one I came up with. From September 21, 1976 (the bull market high for the Dow) to the week of October 17th, 1977 would be **55** weeks. So let's see what October may bring. Personally, I'll be most fascinated to find out.

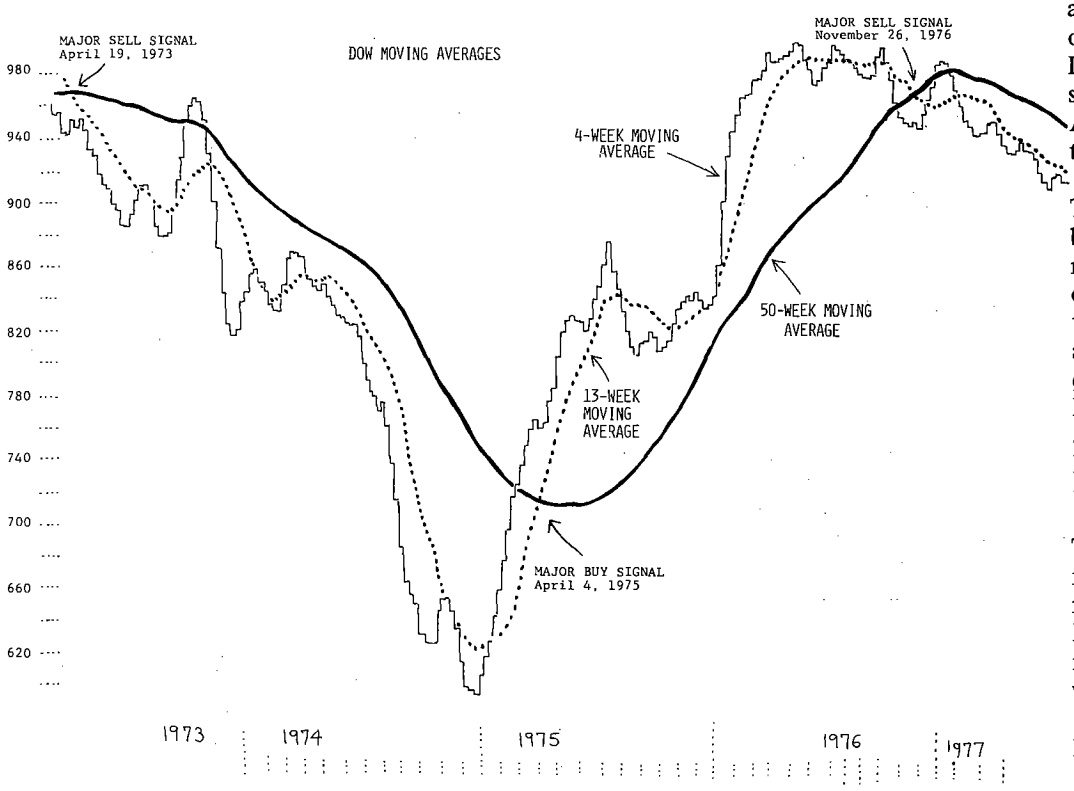
Exactly 20 years ago, by the way, in **July**, the second phase of the 1949-66 bull market ended, followed by the **October**, 1957 market bottom–and a great buying area for the coming bull market third phase.

MOVING AVERAGES: This is the "fail-safe" device that I have used and followed for years. What we see here are three moving averages (MA) of the D-J Industrials, a short-term or 4-week MA, an intermediate or 13-week MA, and a long-term or 50-week MA. The crossing of the 4-week MA above or below the 13-week MA provides our short-term "alert" signals. The much more important intermediate and long-term signals are given when the 13-week MA crosses above or below the 50-week MA.

As older readers know, I give most credence to the major signals (the 13-week crossing the 50-week) when those signals are in the direction of the primary trend of the market. This is not to say that any 13-week/50-week signal crossing may not be important, but the ones that come in the primary direction are the "biggies," the ones that can really affect your assets.

These major signals do not come very often. For instance, in the six years since 1972 there have only been four instances when the 13-week MA crossed the 50-week MA. While any MA signal may prove to be a false alarm or a whip-saw, the history of this study indicates that it would have been profitable to act on the great majority of these signals.

For instance, a buy signal was given on March 1, 1972 with the Dow at 933. A sell signal was given on April 19, 1973 with the Dow at 960, and the result was 30 points gained in terms of the Dow. And by the way,the early 1973 sell would have kept one out of a great 1973-74 collapse! The next buy signal was given on April 4, 1975 at 745 on the Dow, for a net of 215 Dow points saved on the downside (or 215 points of gain for the short sellers).



A sell signal was given on November 26, 1976 at 955 on the Dow. So far this signal has not been erased, but there is no questionning the fact that events since November 26, 1976 may best be described as "unique" or perhaps "exotic." As of this writing, the Dow seller on November 26 would be ahead in that he would have saved himself 40 points.

Two items should be discussed regarding the November 26, 1976 signal. The first (as I discussed at the time) is that the signal was against the primary trend, which I have maintained was and still is bullish. The second is that in the eight months since the signal, the bond market, the Utility Average and the Advance-Decline line have all been strong. Nevertheless, when the 13-week and 50-week MA's did not quickly re-cross to the bullish position (following the November sell signal), I recommended a position of definite caution with the bulk of subscribers' money in high-yielding bonds.

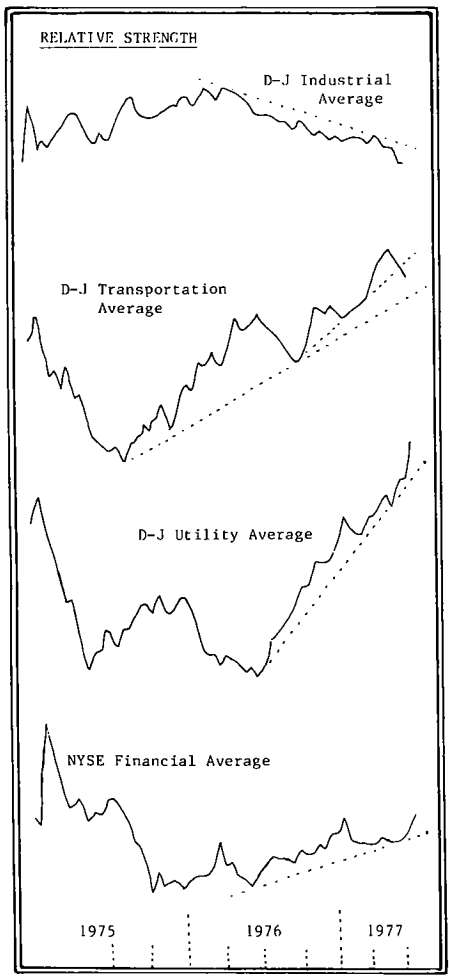
A study of the history of the stock market will serve to show even the most skeptical student that it is very chancy to invest against the trend of the D-J Industrial Average. The instances of a profitable portfolio performance against a declining trend in the Dow are few and far between. At any rate, I have felt that we are warranted in playing it safe and paying the "cost of insurance" as long as the 13-week MA of the Dow is holding decisively below the 50-week MA. At present, this bearish position is still in force, and I have continued to advise caution.

A final note: I believe that a true over-sold market situation would set the stage for a major Dow advance and a re-crossing of the MA's. Therefore, I would almost surely recommend substantial stock positions if the market becomes fully oversold. I would take a less bullish position (but a constructive one) if, without an over-sold condition, the 13-week MA simply climbs above the 50-week MA during the period ahead.

RELATIVE STRENGTH TRENDS: It is revealing to study the relative strength (RS) trends of some of the leading averages as they work their way through this primary bull market. In order to do this, I compare the price of a given stock average by the price of the broad NYSE Composite Index. The accompanying chart shows the RS of four stock Averages plotted on the first and the middle of each month.

The D-J Industrial Average has been the mystery of this bull market. During the first quarter of 1976 the RS for the Dow turned down, which was probably a warning of the divergence to come. The actual price of the Dow hit a peak on September 21 at 1014.79, and from then on Dow price and RS declined together.

The Dow RS has been declining for 16 months, which is a long time for a single average to decline in RS during a bull market. For this reason, I am watching Dow RS with particular interest at this time. A 16 month decline in RS goes a long way toward discounting possible unfavorable developments,



and any turnup in Dow RS which reverses the bearish trendline shown on the chart could have an important (bullish) influence on this market.

The Transport RS presents a picture which may be changing. In mid-1975 the Transport RS turned bullish, and the carriers have been outperforming the general market ever since. A steep rising trendline connecting the 1976-77 RS action was penetrated on the downside a few weeks ago, but the main rising RS line is still intact. I am watching to see whether the carriers can hold above the long 1975-77 ascending trendline in RS. If they can, it will be a plus for the market. If they cannot, then I would expect trouble ahead via the Transportation Average topping out.

The third line shows the extraordinary explosion in RS evidenced in the Utility Average. This spectacular rise has obviously brought the Utilities back into favor, following their long and disastrous bear market drop from 165 (in 1965) to 57 (in 1974). The great rise in Utility RS over the past year may suggest that the Utilities are now in need of a rest. It is even possible that the now thoroughly depressed Dow Industrials are nearing the point where they will take over some of the popularity of the exuberant Utility stocks.

At the bottom of the chart is the RS line for the NYSE Financial Average, an Average made up of 176 financially-oriented companies. Despite talk of higher interest rates, economic chaos and monetary collapse, the RS of the very important Financial Group has been in a positive trend since the second quarter of 1976. I use this RS line as a most important barometer of the monetary health of the nation. So far, the market (through the mechanism of relative strength) is saying that the picture is all right. The rising trend of the Finance Group's RS is, so far, very shallow on the upside, but it is up. Such action bodes well for banks, savings and loan companies, finance companies and the bond market.

RAMBLING ON CANCER, LIFE, INVESTING: I am reading a fascinating and important book by Lawrence LeShan entitled, "You Can Fight For Your Life." The author has spent many years treating cancer patients via psychological therapy. The book is of outstanding interest to me because intuitively I know LeShan is correct in his thesis.

I have always felt that cancer is "the disease of resignation." Cancer is a way of physically giving up, just as schizophrenia is a way of giving up mentally. LeShan, in treating hundreds of cancer people, found that there are a number of characteristics which these cancer people seem to have in common. The first and foremost is the loss of any "reason for being," literally a loss of interest in life. The second common characteristic is an inability to express anger. A third characteristic is persistent emotional tension associated with the loss of a parent (even though the parent may have died many years ago).

In my opinion, all three characteristics have the "giving up" thesis in common. The loss of interest in life is obviously a way of giving up on ever finding any satisfaction on this earth. The inability to express anger is a giving up on defending oneself, a giving up on one important way of expressing oneself (even Christ expressed anger when he whipped the moneychangers out of the temple). The loss of a parent can also lead to a process of giving up. The guilt, fear or anxiety (if it *lasts* for years) is another way of saying, "I can't go on without daddy or mommy; life has no meaning if I have to face it without my parents."

All right, let's stop right here. "Russell," you ask, "why the devil are you talking about cancer and psychology here in the middle of a market report? I'm not paying you for your damn fool views about cancer!" My only answer is that I've spent more of my life studying my own psyche, my own (and others) diseases and insanity than I have studying the stock market. And that's a long time, by the way. But more than that, I'm really only interested in communicating with investors (who are usually above average people) on a total level. I want to write as I learn and as I see the world. If I can't, then I have no interest in publishing and I would as soon open a restaurant or make movies or do anything where I can honestly express myself.

I speak to many of my subscribers during the course of a given year. And their problems and troubles (like mine) come in every form and size. I've often expressed the opinion in these Letters that I think we are all here on this earth to advance, to move towards our true potential. If making money or being rich help us in that endeavor, then the powers above will probably see to it that we have the opportunity to build wealth. But building a fat bank account is never an end in itself. It can be a reward or an aid or an interesting factor that may project a person into public prominence (or recognition). But always for a *purpose.* Wealth does not in itself create happiness. The truth is that wealth, like happiness, is merely a *byproduct* of living and thinking correctly.

To my mind, the most important thing about money is that it allows a person to be somewhat free. Money gives you the chance to be free from many encumbrances, but it does not guarantee freedom. However, poverty does guarantee a certain kind of slavery. The man who is "broke" must spend much of his time in the basic and (unfortunately) often demeaning search for food and shelter. Because of this he has less time to search for his soul and the meaning of his life. That, to me, is the real tragedy of poverty.

When I meet a subscriber (or anyone else) I invariably find myself asking the questions, "Who is he? What does he do? What does he want? How does he think?" But the most important question to me is, "Is he struggling with his life?" If he's in what I call the "great struggle," then no matter who he is I will find him interesting. But if he's just trying to make money or just

chasing success or power or wealth, then I may or may not find him interesting (usually, on a deep level I don't).

I want to make one basic point in this piece, and it has to do with something that concerns us all. In the LeShan book the author notes that over and over again he talks with patients who have given up their lives, their aspirations, their dreams, without even realizing that they have given up. And that's the process that leads to disease, frustration, despair, boredom, resignation–and at worst, suicide in the form of cancer.

All of which brings me to another thought. I like people to make money because I think it may, it just may help them gain confidence in the game of life. Money can be a means of *support*. And that kind of confidence and support may in turn give a man enough *strength* to sit down and say, "What's my life all about? Am I doing what I want? Am I doing myself any good? Am I doing anyone else any good? Do I feel that my life has any direction, any purpose?"

Sigmund Freud said, "Love and work, that's all there is." And I do believe that everything worthwhile does come under Freud's two categories. So where does all this leave me, as far as writing Dow Theory Letters is concerned? I've thought about that a lot, and one thing sticks in my mind. I hope that among other things I may be teaching people how to be sane about the market and their investments. I hope that I can show people that crap shooters and in-and-out traders usually waste their time and their money, whereas patient investors tend to accumulate assets.

I've seen fortunes made through careful intelligent, often boring investment policies. And I've seen large asset pools destroyed by foolish speculations, buying on rumors, and mindless trading. I guess the vast majority of investment services attempt to show people how to make money in the market. When people ask me what I do for a living, I answer that "I try to teach people how not to lose." That reply may sound cynical–but it contains quite a bit of truth.

DEBT-ONATE: The figures below were worked out by the *National Taxpayers Union*. What it shows is the total of US debt (taken from official Treasury Dept. figures). "How could this be?" you ask, "How could this have happened to a nice country like America?" And my answer is that it not only happened, it's still happening. The deficits are building daily, hourly and by the minute.

YOUR ATTENTION IS DIRECTED TO AMOUNTS DUE AS INDICATED BELOW

TRANSACTION DESCRIPTION	GROSS COST	YOUR SHARE
National Debt	$ 544,000,000,000.00	$ 10,880.00
Other Fiscal Liabilities	$ 69,000,000,000.00	$ 1,380.00
Undelivered Orders	$ 130,000,000,000.00	$ 2,600.00
Long-term Contracts	$ 12,000,000,000.00	$ 240.00
Financial Commitments	$ 175,000,000,000.00	$ 3,500.00
Insurance Commitments	$ 1,481,000,000,000.00	$ 29,620.00
Annuity Programs	$ 3,499,000,000,000.00	$ 69,980.00
Unadjudicated Claims	$ 10,000,000,000.00	$ 200.00
International Commitments	$ 10,000,000,000.00	$ 200.00
Miscellaneous Commitments	$ 31,000,000,000.00	$ 620.00
Subtotal as of June 30, 1975	$ 5,961,000,000,000.00	$ 119,220.00
Liability growth in Fiscal 1976	$ 600,000,000,000.00	$ 12,000.00
TOTAL	$ 6,561,000,000,000.00	$ 131,220.00

What will be the outcome? The outcome will be that (1) either the debt will be wiped out or (2) it will be subject to the biggest default in history. How can it be wiped out? The answer here is that it can be wiped out by inflation, which would also result in destruction of the system as we know it. Or it can be wiped out by Americans deliberately paying it off. The latter is, to my mind, inconceivable, as it would lead to a horrendous depression. So the best outcome would be a debt-halt, a stopping of the process that produces debt.

And here we come to the big problem of human nature. One of the definitions of maturity is the ability to put off current pleasures for the sake of future well being. Are Americans willing to do this? My guess is that they might be with the proper leadership, but I doubt it. I doubt if they would be willing to take the pain connected with a balanced budget and a conservative, workable fiscal policy.

All of which means that we are moving inexorably towards the end of the great debt cycle. I will try to tell the story and provide some of the strategies as we move along towards what at this time appears to be the ultimate, certain, bankruptcy of the US Government.

NOTES & QUOTES: I recently received a rundown of the **dollar cost** of an identical package of goods and services around the world. The price variations are fascinating. Most expensive: Tokyo $123, then Stockholm $101, Zurich $100, Copenhagen $98, Tel Aviv $93, New York $92, Paris $91, Chicago $87, San Francisco $78, and down to the cheaper Lisbon $75, Athens $71, Singapore $70, Dublin $65, Rio De Janeiro $64, Johannesburg $64, London $62, Madrid $61, Milan $60, Sao Paulo $58, Manilla $58, Bogata $50.

* *

If you've been waiting patiently for the Administration to give you the long awaited break on dividends via removal of double taxation, the latest word is "forget it." This little clip is from the Evans-Novak Report, a report, by the way, which I find pretty authoritative.

> A bizarre alliance of corporate big business and liberal White House aides is burying one of President Carter's tax-reform campaign promises: ending double taxation of corporate profits and stockholder dividends.
>
> This coalition's success is made all but certain by the fact budget director Bert Lance has just joined it. Presidential confidant Lance's reason for opposition: the $14 to $18 billion revenue loss.
>
> Business opposition, led by the influential Business Roundtable, results from the fear of corporate managers that a stockholders' tax credit to offset taxes paid at the corporate level will squeeze corporations for higher dividends. Liberal aides in the White House, led by policy chief Stuart Eizenstat, see the proposal as making the President vulnerable to charges that he favors rich stockholders over blue-collar wage-earners.

Last night I talked to Myron "Mike" Kaller, stamp dealer-agent-expert from NYC. Mike is excited and rightfully so. He just paid the highest price ever paid for a single US philatelic item, a block (four attached stamps) of an early airmail invert (centers printed upside down by mistake). For this famous US item, Mike paid $210,000! Mike–it's time you bought a big dog–like a Mastiff.

* *

The Administration's stupidity in announcing a US policy of letting the dollar fall is upsetting knowledgeable market men around the world. The sliding dollar is supposed to help our trade deficits, but the very opposite may prove to be the case. A lower dollar is going to mean bigger bills for our oil purchases. Furthermore, the deliberate US policy of letting the dollar go is bound to scare and discourage foreign investors who will pull their money out of this country (and, by the way, the stock market).

My view of the Administration now runs something like this: Carter is a well meaning President who is currently receiving on-the-job training. I have respect for *Carter's* intelligence, but I am wondering about his judgmental ability. Treasury Secretary *Blumenthal,* incompetent in his new position, does not understand money. Budget Director *Lance*, a wheeler-dealer who doesn't tend to think or act in a straight line. His mismanagement of his personal affairs has lost him 80% of his credibility.

LATE NOTES, THOUGHTS: I received a letter today from a nice lady who said that she enjoys the reports, but that I don't talk enough about individual stocks. "What I want," she said, "is two or three stocks that will do well in the next six months to a year." I'll answer that letter here. "Patience, dear lady, patience. The reason I haven't been talking a great deal about stocks is that I haven't wanted subscribers to buy stocks in this area. If we exercise patience, I think this market has a chance of going into a good slide, thereby producing what I call an **"over-sold area."** Such areas materialize when the worst has been discounted, and of course, when that happens the market has nowhere to go but up."

I noticed one phenomenon last week which I want to talk about. It's a technical occurrence which can appear in the Averages or in individual stocks. Please turn to the page 1 daily chart of the Averages. Note that a big *spurt of volume* occurred at around the area where the Industrials and Transports recorded their most recent highs (Industrials 923.42, Transports 239.53).

This big volume appeared with the Averages **under** the previous May and early-June peaks, not after the Averages had bettered the preceding peaks! I always consider that kind of action dangerous–it smacks of distribution. In other words, if Industrials had rallied over 930 or above 940 and then the 32 million shares of volume had appeared, I would have been impressed. But I was not impressed when big volume churned up and the Averages had accomplished nothing, technically speaking.

I consider this "high volume double-top" syndrome so important that I want to illustrate it via four NYSE stocks. These are weekly charts courtesy of *Securities Research*, 208 Newbury St., Boston, Mass. 02116. I have drawn a black dot at each of the tops. Note (at bottom of each chart) how volume tended to flair up as the price nears the preceding top. But the volume produces no real progress in the sense that new highs are not registered.

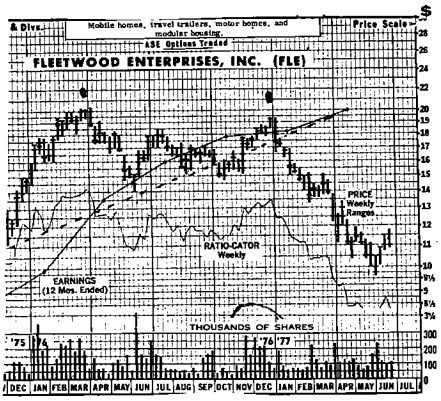
The failure to produce new highs is a dangerous signal, but it is not the signal to run–yet. Note that I have drawn what I term a "point of no return" trendline on each chart. Having failed to go to new highs, if price then turns down and ruptures that trendline, I know that an important distribution has taken place. A breaking of the trendline then constitutes a sell signal–and it is out for me, as Woody Allen puts it, "Take the money and run."

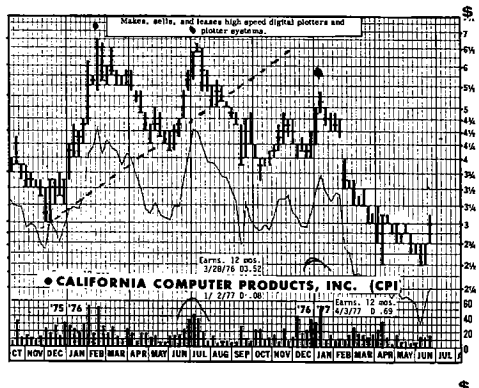
As this is written (morning of July 27), the market is weak for the third successive day. The Transports are below 235.05 at this moment and the Industrials are down over 5 points, which means they are within 5 points of their May 21 low (see chart on page 1) of 898.66. Obviously I don't know how today's market (or tomorrow's for that matter) are going to wind up, but IF Industrials do go below 898.66 and Transports fall under 235.05, we will have an event which I would take as intermediate term bearish.

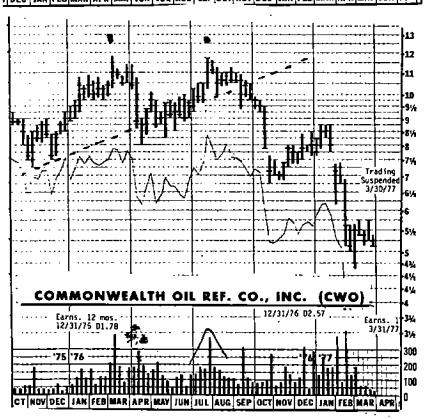
If, and again I say if, the **two** Averages crack below their 898.66 and 235.05 lows, the time span of the violations will be important. As a rule, the *closer together* (in terms of time) the penetrations of the two Averages through preceding points, the **more important** those penetrations. Thus if the two Averages should break their lows on the same day (or even a day apart), such action would heighten the importance of the downside "prediction."

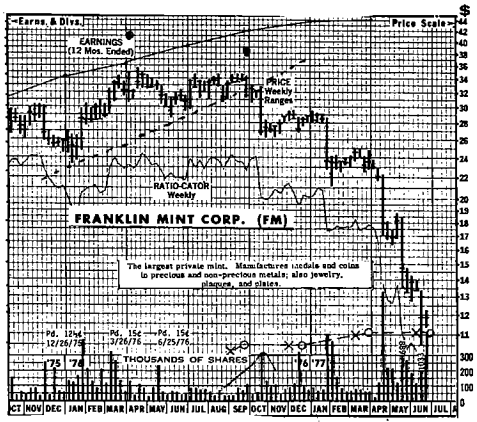
* *

Commodities have continued abysmally weak. The dollar has also been on the sick list, and dollar weakness would normally bring in higher interest rates and a slumping bond market. Yet the bond market has been acting remarkably well (note, for instance, that Fidelity Municipal Bond Fund is at the high). I take this as a sign of an impending business slowdown this Fall (in which case the need for money would decrease). I also take bond strength as an indication that both institutions and the public are opting for bonds on an increasing scale. To put it as politely as possible, I must admit that I have been thinking as follows, "With Carter, Blumenthal and Lance at the helm, bonds rather than stocks are pretty attractive–at least at this time."









With the market producing this much weakness, I am convinced that a major over-sold situation will be needed before a broad market advance can materialize. Remember, it has been 10 months since the *entire* market (i.e., Averages, breadth, groups) has moved as a unit. Yet normally, the market does move as a unit. My feeling is that once we have a "washout" on the downside and an important over-sold bottom situation we will again see Wall Street move as a unit again, and it will be on the upside.

Jim Dines just called me and we discussed whether this was a primary bull or bear market. In short, Jim and I disagree on the primary trend. I said, "James, I believe this is a continuing bull market, but for the moment I am telling my subscribers to **act** as if its a bear market. I saw people ride through the bull market corrections of 1953, 1957 and 1962, and I know that it wasn't worth it!"

As I write this I hear on the radio that our June trade deficit was $2.8 billion, twice the May deficit. Carter must have known what was coming, and "they" told him a cheaper dollar would turn the tide. If cheaper money could turn the tide, Britain would own the world.